

**REPORT OF THE AUDIT OF THE  
BELL COUNTY  
CLERK**

**For The Year Ended  
December 31, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BELL COUNTY CLERK**

**For The Year Ended  
December 31, 2005**

The Auditor of Public Accounts has completed the Bell County Clerk's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$28,243 from the prior year, resulting in excess fees of \$69,038 as of December 31, 2005. Revenues decreased by \$353,840 from the prior year and expenditures decreased by \$325,597.

#### **Debt Obligations:**

Lease agreements totaled \$4,834 as of December 31, 2005. Future principal and interest payments of \$13,728 are needed to meet these obligations.

#### **Report Comments:**

- The County Clerk's Personnel Administrative Policy Should Be In Writing
- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Have A Written Agreement To Protect Deposits

#### **Deposits:**

The County Clerk did not have a written security agreement to protect deposits.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Al Brock, Bell County Judge/Executive  
Honorable Joan Asher Cawood, Bell County Clerk  
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bell County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2006 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Al Brock, Bell County Judge/Executive  
Honorable Joan Asher Cawood, Bell County Clerk  
Members of the Bell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk's Personnel Administrative Policy Should Be In Writing
- The County Clerk's Office Lacks Adequate Segregation Of Duties
- The County Clerk Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 2, 2006



BELL COUNTY  
 JOAN ASHER CAWOOD, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Grants	\$	6,494
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State Fees For Services		13,244
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Fiscal Court		33,232
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 536,124	
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Usage Tax	1,434,767	
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Tangible Personal Property Tax	1,385,533	
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Lien Fees	5,710	
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Other-

Fish and Game Licenses	8,685	
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Marriage Licenses	10,139	
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Occupational Licenses	405	
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Legal Process State Fees	6,090	
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Deed Transfer Tax	41,153	
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Delinquent Tax	260,431	3,689,037
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Fees Collected for Services:

Recordings-

Liens	6,333	
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Deeds, Easements, and Contracts	11,652	
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Real Estate Mortgages	23,253	
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Chattel Mortgages and Financing Statements	58,359	
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Powers of Attorney	1,258	
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All Other Recordings	15,878	
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Charges for Other Services-

Copywork	17,558	
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Other Copywork - PVA	615	
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Notary Fees	6,378	141,284
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Other:

Refunds	2,352	
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Miscellaneous Receipts	3,978	6,330
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Interest Earned		861
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Redeposits / Reimbursements		452
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Total Revenues		3,890,934
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The accompanying notes are an integral part of this financial statement.

BELL COUNTY  
 JOAN ASHER CAWOOD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	419,871	
Usage Tax		1,389,973	
Tangible Personal Property Tax		475,336	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		9,144	
Delinquent Tax		44,740	
Legal Process Tax		17,547	\$ 2,356,611

Payments to Fiscal Court:

Tangible Personal Property Tax	144,377	
Delinquent Tax	47,202	
Deed Transfer Tax	39,117	230,696

Payments to Other Districts:

Tangible Personal Property Tax	710,237	
Delinquent Tax	104,467	814,704

Payments to Sheriff

8,003

Payments to County Attorney

34,360

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	192,590
Part-Time Salaries	9,695
Overtime	25,524

Employee Benefits-

Employer's Share Social Security	22,182
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Contracted Services-

Part-Time	800
Accounting Services	3,840

Materials and Supplies-

Office Supplies	5,770
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The accompanying notes are an integral part of this financial statement.

BELL COUNTY  
 JOAN ASHER CAWOOD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	3,918	
Dues		900	
Refunds		4,128	
Miscellaneous		1,880	
Election Expenses		1,532	
Preparing Tax Bills		3,435	
Advalorem Refunds		167	
Capital Outlay-			
Office Equipment		22,506	\$ 298,867
Total Expenditures			\$ 3,743,241
Net Revenues			147,693
Less: Statutory Maximum			71,861
Excess Fees			75,832
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,194	6,794
Excess Fees Due County for 2005			69,038
Payment to Fiscal Court - March 10, 2006			50,000
Balance Due Fiscal Court at Completion of Audit*			\$ 19,038

\*Note: The County Clerk presented a check to the County Treasurer for the balance due Fiscal Court on November 2, 2006.

BELL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the County Clerk did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were adequately covered by FDIC insurance or a surety bond but no properly executed collateral security agreement.

BELL COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2005  
 (Continued)

Note 4. Grant

During 2005, the County Clerk received a grant from the Kentucky Department for Libraries and Archives for the purpose of a roller desk-shelving unit in the amount of \$6,494. The County Clerk made one expenditure totaling \$6,494, leaving a \$0 balance as of December 31, 2005.

Note 5. Leases

The County Clerk's office was committed to the following lease agreements as of December 31, 2005:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance December 31, 2005
Copiers	\$ 352	39 months	02/13/08	\$ 4,834

BELL COUNTY  
JOAN ASHER CAWOOD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 11, 2005, the County Clerk had bank deposits of \$342,832; FDIC insurance of \$100,000; and surety bond provided as collateral pledged of \$2,500,000. Even though the County Clerk obtained sufficient collateral of \$2,500,000, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the surety bond provided as collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Clerk's Response: I am going to get a go-by and go back to the bank with it to correct this.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The County Clerk's Personnel Administrative Policy Should Be In Writing

The Bell County Fiscal Court adopted an administrative code on November 13, 2001. Under the provisions of KRS 68.005, the county is required to have an administrative code that includes, but is not limited to, procedures and designation of responsibility for personnel administration. The county's administrative code allows employees to carry over vacation leave to the next calendar year. However, during our test of payroll, we noted that the county clerk's employees did not accrue vacation leave in accordance with the county's administrative code. The county clerk pays employees for unused vacation leave during the month of December rather than carrying it forward to the next calendar year. If the clerk chooses to use a different personnel policy, the policy should be documented in writing.

*County Clerk's response: I am still working on resolving this.*

BELL COUNTY  
JOAN ASHER CAWOOD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (CONTINUED)

The County Clerk's Office Lacks Adequate Segregation of Duties

We conclude the internal control structure lacks an adequate segregation of duties because during part of 2005 one employee was solely responsible for preparing daily deposits, preparing receipts and disbursements ledger, preparing the monthly bank reconciliations and for preparing the delinquent tax reports and the tangible personal property tax reports. The Clerk has the statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties, compromises the internal control structure of her office. Having only one individual who is responsible for many duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The Clerk should consider delegating some duties to other employees to help strengthen the internal control structure in her office. For example, the duties of recording transactions, preparing deposits, preparing bank reconciliations, and preparing reports could be delegated between different employees. We recommend the Clerk implement and develop procedures to help strengthen the internal control structure of her office.

*County Clerk's Response: This was corrected in the later part of 2005.*

PRIOR YEAR:

The County Clerk Should Have A Written Agreement To Protect Deposits  
The County Clerk's Office Lacks Adequate Segregation Of Duties



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Al Brock, Bell County Judge/Executive  
Honorable Joan Asher Cawood, Bell County Clerk  
Members of the Bell County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bell County Clerk for the year ended December 31, 2005, and have issued our report thereon dated November 2, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bell County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk's Personnel Administrative Policy Should Be In Writing
- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bell County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Have A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 2, 2006

